



Doing Business In Ghana: A Country Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Ghana

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Market Overview

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The Ghanaian economy has shown steady growth for the past four years. The economy grew by 4.5 percent in 2002, 5.2 percent in 2003, 5.8 percent in 2004 and 2005 growth is estimated at 5.8 percent. The growth in 2005 was broad based, propelled by agriculture, industry and the service sector. Indications are that this momentum is likely to continue. Year-on-year inflation was approximately 15 percent in December 2005 compared to 11.8 percent in December 2004. The rise in petroleum prices on the world market exerted modest inflationary pressure on the economy. The momentum will likely continue in the medium term, but inflationary pressures and the slowing pace of government economic reforms present risks to long-term growth.

The agricultural sector grew by 4.4 percent in 2002, 6.1 percent in 2003, 7.5 percent in 2004, and 6.5 percent in 2005. Growth in the cocoa sub-sector declined from 29.9 percent growth in 2004 to 13.2 percent in 2005 thus leading to a reduction in the agricultural sector's contribution to GDP.

Growth in the industrial sector increased by 4.7 percent in 2002, 5.1 percent in 2003, 5.1 percent in 2004, and 5.6 percent in 2005. Manufacturing, construction, electricity and water sub-sectors all experienced significant growth, while the mining and quarrying sub-sector growth rate declined from 4.5 percent growth in 2004 to 3.0 percent growth in 2005. Road and infrastructure development in the country has led to higher output in construction, registering a growth of 6.1 percent in 2003, 6.6 percent in 2004, and 7.0 percent in 2005.

The service sector grew 5.4 percent in 2005 up from 4.7 percent in 2004. Although all sub-sectors grew, the main propellers of service sector growth in 2005 were wholesale trade & retail, transport, storage and communications. The Bank of Ghana (Central Bank) implemented sound monetary policies that controlled the increase in inflation, and also reduced official reserve requirements for banks, which induced competition in the finance services sub-sector and led to an increase in new banks and new financial products. The contribution of the service sector to economic growth improved from 24.3 percent in 2004 to 27.7 percent in 2005.

Ghana is a member of the WTO, and presently has a policy of enlarging its global trade market. The Ministry of Trade and Industry is administering the Ghana Trade and Investment Gateway Program. The program seeks to promote Foreign Direct Investment and establish Ghana as a major manufacturing, value added, financial and commercial center. To this end, the government has gradually reduced the corporate tax rate from 32.5 percent in 2004 to 25 percent in 2006, as well as abolished the 5 percent duty on textile manufacturing raw materials and created an exemption from import duties of specified aircraft parts and accessories.

In the past, Ghana conducted most of its external trade with Europe, but trade with the U.S. has risen rapidly. The last three years have seen an increase in the U.S. share of total imports, and that trend is expected to continue. U.S. exports to Ghana in 2004 were estimated at just over \$308 million, making Ghana the sixth [or sixth?] largest export market for the U.S. in sub-Saharan Africa. In 2003, Ghana's largest volume of imports were from Nigeria (USD 599.77 million), the United States (USD 225.8 million), UK, Germany, France, China, Netherlands and South Africa. Since 2003, Ghana's imports from South Africa, China and India have grown tremendously. Ghana's largest exports in 2003 were to Switzerland, UK, Netherlands, Belgium, Germany, Italy and France.

Challenges to Market Entry

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Traditional challenges to market entry for U.S. exporters include:

- Limited Ghanaian purchasing power (low disposable income);
- Complex land tenure system;
- Diminished U.S. interest due to the relatively small market size;
- Limited and costly financing resources for U.S. exporters and Ghanaian buyers;
- Unfamiliarity with U.S. products and traditional ties to European markets;
- More favorable credit terms offered by European suppliers to local importers; and, tied aid or concessional funding linked to non-US purchase requirements;
- Limited commercial information related to traditionally informal nature of Ghanaian market;
- High cost of local credit for importers;
- High inflation rate;
- Inadequate business infrastructure, particularly in the telecommunications and road sectors; and,
- Bureaucratic hurdles.

Inadequate infrastructure

Inadequate infrastructure is an impediment to domestic productivity and discourages foreign direct investment. However, improvements continue to be made at most levels, especially in the telecommunications and road construction sectors. There are currently two National Fixed Line Operators and four National Mobile cellular Network operators who are licensed and authorized to operate. Ghana has 323,000 fixed line subscribers. Nationwide, 2,472,000 mobile telephone lines have been sold by mobile operators. As of November 2005 [no newer data?], there were 27 internet service providers and 57 VSAT data operators that are operating. The availability of wireless service is expanding and there has been much growth in voice traffic and data transmission systems.

The Government of Ghana, aided by foreign donors, has committed substantial resources to road building efforts, although the generally poor quality of Ghanaian roads still slows down the delivery of goods, especially during the rainy season.

Land Acquisition and Tenure

One of the major challenges to investment in Ghana remains the issue of land acquisition and tenure. Land reforms are urgently needed to ensure that investors can

lease property and be assured that they are the only holders of the deed within a legal framework.

Market Opportunities

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Gold mining remains the focus of growth in Ghana's industrial sector. Ghana is the largest gold producer in West Africa. Total gold production increased by about 2.0 percent in the first three quarters of 2005 over same period in 2004, and earnings increased by 9.5 percent as the world market price has risen to 20-year highs. Production is expected to rise with renewed interest in gold mining in Ghana by mining giants like Newmont Mining and AngloGold Ashanti. The focus of current government policy aims at diversifying the mineral production base of the country, which currently hinges on gold, and to a lesser extent on diamonds, manganese and bauxite, as well as to encourage local value added processing.

Cocoa production reached 734,699 metric tons in 2003/2004 season, breaking the 1964 - 65 export record of 523,000 metric tons [and brought in record level revenues of over USD 1 billion. Cocoa production however fell in 2004/2005 season to 583,109 metric tons. Cocoa production yield is however expected to improve as a result of government support to farmers for pest and disease control, planting of improved hybrids, favorable climatic conditions, and increased farm gate price for cocoa. About 65 percent of Ghana's cocoa is exported as raw bean. The government is attempting to attract investors interested in value added processing.

The rapid growth in Ghana's telecommunications sector continues to offer good opportunities for service and equipment providers. There are numerous investment opportunities in the construction sector, including roads, highways and bridges, coastal works, and residential accommodation.

Market Entry Strategy

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There are no laws requiring the retention of a local agent or distributor for a foreign company exporting to Ghana. However, American companies wishing to enter the Ghanaian market are strongly advised to retain a businessperson or persons resident in Ghana to market their products. An agent or distributor should possess a thorough understanding of the economy. If the exported product requires servicing, qualified personnel and a reasonable inventory of spare parts must be considered. Exporters should be aware that agents and distributors commonly represent several product lines.

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